

Message Text

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ACTION EB-08

INFO OCT-01 ARA-06 ISO-00 SP-02 USIA-06 AID-05 NSC-05
TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
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FM AMEMBASSY LIMA
TO SECSTATE WASHDC 4275

CONFIDENTIAL LIMA 2651

E.O. 11652: GDS
TAGS: EFIN, IMF, PE
SUBJ: IMF: TEAM CONCLUDES PRELIMINARY DISCUSSIONS ON
STANDBY PROGRAM

REF: LIMA 2000

1. SUMMARY: IMF TEAM HAS CONCLUDED FIRST PHASE CONSULTATIONS
ON PERU'S \$100 MILLION STANDBY REQUEST. TEAM LEFT BEHIND FOR
GOP CABINET-LEVEL CONSIDERATION A PROPOSED SET OF LOAN
CONDITIONS WHICH GOP FEELS IS EXTREMELY STRICT. HEAD OF
CENTRAL BANK SEES FURTHER HARD NEGOTIATIONS AHEAD, AND WE
UNDERSTAND HE HAS OFFERED HIS RESIGNATION IF GOP DOES NOT
COME UP WITH REALISTIC PROGRAM WHICH HE CAN TAKE TO IMF
IN GOOD CONSCIENCE. END SUMMARY.

2. IMF TEAM HEADED BY MRS. LINDA KOENIG RECENTLY CONCLUDED
THE FIRST PHASE OF CONSULTATIONS IN LIMA WITH SENIOR GOP
ECONOMIC OFFICIALS WITH RESPECT TO PERU'S REQUEST FOR \$100
MILLION STANDBY LOAN. TEAM REPORTEDLY LEFT BEHIND A MEMORANDUM
OUTLINING WHAT GOP FEELS TO BE A VERY STRICT SET OF LOAN CONDITIONS.
THESE CONDITIONS REPORTEDLY INCLUDE: SIGNIFICANTLY SHARPER
SERIES OF DEVALUATIONS TO ADJUST SOLES/US\$ EXCHANGE
RATE TO AROUND 90/1; INCREASED GASOLINE PRICES TO COVER
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PETROPERU DEFICIT; INCREASED PUBLIC TRANSPORT COSTS;
REDUCING THE INFLATION RATE IN 1977 TO 14 PERCENT; CUTTING THE
FEDERAL BUDGET DEFICIT TO 25 BILLION SOLES (ABOUT US\$ 377
MILLION) BY INCREASING TAXES AND REDUCING BOTH CURRENT AND
PROJECT INVESTMENT EXPENDITURES; A TIGHTER SQUEEZE ON
DOMESTIC CREDIT; AND, A MORATORIUM ON FURTHER FOREIGN ARMS
PURCHASES.

3. IMF TEAM VISIT WAS DISCUSSED BRIEFLY WITH HEAD OF PERU'S CENTRAL BANK (CARLOS SANTISTEVAN) DURING EVENING MARCH 31, AND HE CONFIRMED TO US THAT THE IMF TEAM HAD PROPOSED TERMS ALONG GENERAL LINES PARA 2 ABOVE. HE INDICATED THAT HARD NEGOTIATIONS LIE AHEAD AS PERU ATTEMPTS TO DEVELOP COUNTER-PROPOSAL THAT TAKES INTO ACCOUNT BOTH IMF CONCERNS AND PERUVIAN POLITICAL AND SOCIAL REALITY. HE INDICATED THAT HE MIGHT BE TRAVELING TO WASHINGTON IN COMING DAYS OR WEEKS TO PRESENT GOP COUNTER-PROPOSAL.

4. COMMENT: EMBASSY HAS LEARNED FROM RELIABLE SOURCES WITHIN BANKING COMMUNITY THAT SANTISTEVAN AND HIS TOP MANAGERS ARE IN FACT MOST CONCERNED BY WHAT THEY VIEW AS UNREALISTIC AND INFLEXIBLE ATTITUDE ON THIS MATTER AT HIGH LEVELS IN PERU'S MILITARY GOVERNMENT AND HAVE THREATENED TO RESIGN EN MASSE IF PRESIDENT AND JUNTA (PRIME MINISTER/MINISTER OF WAR, AND NAVY AND AIR FORCE MINISTERS) DO NOT AUTHORIZE ECONOMIC TEAM TO GO BACK TO IMF WITH A REASONABLY-BALANCED PROGRAM. CENTRAL BANK OFFICIALS REPORTEDLY CONSIDER MORATORIUM ON NEW ARMS PURCHASES TO BE SINE QUA NON OF GOP COUNTER-PROPOSAL TO FUND OFFICIALS. THEY CONSIDER OTHER POINTS IN PARA 2 ABOVE TO BE SUBJECT TO SOME NEGOTIATION, (E.G. CONTINUATION OF PRESENT MINI-DEVALUATION AT SLIGHTLY-INCREASED TEMPO RATHER THAN SHARPER DEVALUATIONS WHICH IMF SUGGESTED; MAKING INFLATION RATE GOAL HIGHER THAN UNREALISTIC 14 PERCENT) AND ARE REPORTEDLY URGING EARLY APPROVAL OF POLITICALLY-VIABLE ALTERNATIVE STABILITY PROGRAM WHICH THEY WOULD HAVE SOME REASONABLE CHANCE OF SELLING TO THE IMF.

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Message Attributes

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